



REHABILITATION LENDING

Kennebec Valley Community Action Program

PARTICIPANT PROFILES

Kennebec Valley Community Action Program (“KV Community Action”) is a private, non-profit corporation whose mission is to provide social services to low- and moderate-income people and reduce the level of poverty in central Maine. KV Community Action employs more than 200 people and has an annual budget of more than \$14 million. Its funding base is diverse and includes support from a variety of federal, state and local agencies, municipalities, and financial institutions, as well as fees paid by clients for services. The Housing Services Department of KV Community Action, which employs 31 people, is composed of three divisions: the Housing Division, the Information Center, and the YouthBuild Program.

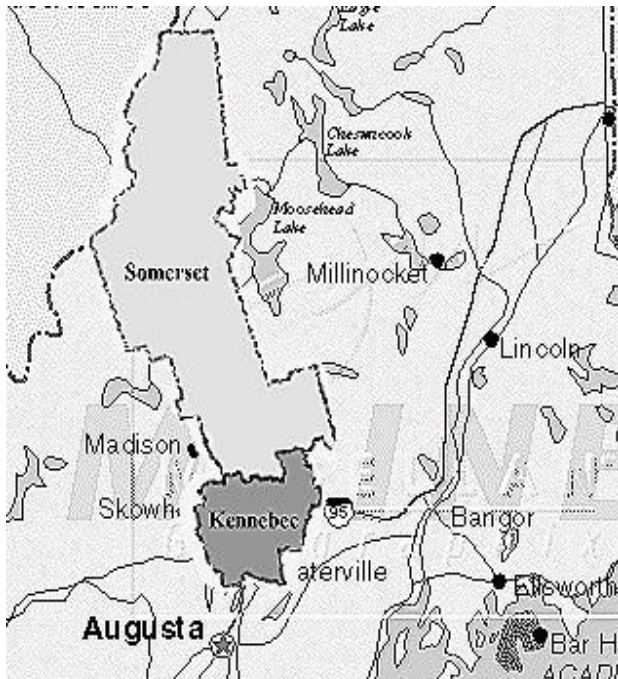
The long-term goal of the KV Community Action Housing Services Division (“Housing Services”) is to advocate for and help provide

safe, affordable housing for low-income residents of Kennebec and Somerset counties. In furtherance of this goal, KV Community Action’s Housing Services works in partnership with the Maine State Housing Authority, Kennebec Federal Savings Bank, Consumer Credit Counseling Services, area municipalities, local realtors, area contractors and residents. For nearly two decades, KV Community Action has been providing housing and housing assistance services to the agency’s clientele through several educational and lending programs, including: Weatherization, Central Heating Improvement, Housing Preservation, Home Energy Assistance, Home Ownership Training, Families in Transition, Affordable Housing, Training and Technical Assistance, and Fix-Me Home Repair, the best practices focus of this section.

COMMUNITY BACKGROUND

KV Community Action's service area includes all of Kennebec and Somerset counties in Maine. These two counties cover a large, essentially rural region of 80 cities, towns, and plantations, as well as a large section of uninhabited forest land. The region has a population of nearly 166,000 people scattered

across 4,795 square miles, resulting in low population density and dispersed settlement patterns. Approximately 90,000 people, or nearly 56 percent of the region’s total population reside in the 10 largest communities in KV Community Action’s service area.



Within the service area, population pockets range from a low of 36 people to a high of 21,235. The service area's overall population density of 34.5 persons per square mile, quite low relative to the urbanized northeast, with a population density average of 317.9 persons per square mile, masks the fact that most of the population of Kennebec and Somerset counties is located in communities along Interstate 95. Less than half the population resides in the smaller towns and on plantations.

Manufacturing industries, such as lumber, paper, and textiles, dominate the region's economy. However, the industry has been on the decline, dropping 14 percent in the last decade. Conversely, the service industry has increased 23 percent over the same 10-year period. Most of this growth has occurred in health care, home care, and tourism.

Mirroring state and national trends, the population of the KV Community Action service area is an aging population. The median age of the population in Kennebec and Somerset counties increased from 30.6 years in 1980 to 34.1 in 1990. The KV Community Action two county service area had 19.4 percent of its population in the 45- to 64-year-old age bracket in 1990, with 13.3 percent age 65 or older. 1993 U.S. Census Bureau estimates confirm that the service area population continues to age, with residents in the 45- to 64-year-old bracket totaling 21.8 percent of the population, 36,836 individuals, and those in the 65 or older bracket representing 13.8 percent of the population, 23,302 individuals. Further, Maine's median household income in 1993 was estimated at \$28,732. The median household income for Somerset County in 1993 was estimated at only \$26,178, while Kennebec County was higher, slightly surpassing the state median, at \$32,776.

COMMUNITY NEEDS

Generally, the housing stock in Maine is very old and, in many cases, in very poor condition. According to the 1990 census, Maine's housing stock, 291,401 units, was the seventh oldest in the nation, with 39 percent built before 1939 and 50 percent before 1960. In KV Community Action's two county service

area, 35 percent of the housing stock was created prior to 1939, and 49 percent predates 1960. The key to sustaining the quality of the existing housing stock is maintenance, repair, and selected replacement. Over time, however, this involves substantial cost to the homeowner.

A critical factor in dealing with the older housing stock is the safety of electrical, plumbing, water, waste disposal, and structural components. The current condition of many of these components creates hazards for the homeowner. The threat of fire is of special concern to low-income homeowners because older heating systems are often inadequate or poorly maintained and thus, dangerous. Considering that the mechanical and structural life of most homes ranges

between 15 and 30 years, a large number of these homes are in need of major rehabilitation.

Low- and moderate-income individuals trying to obtain funds to rehabilitate, repair, or make their homes more livable have found very few alternatives. Those who can afford only small payments for home improvement loans often do not qualify for conventional products.

BEST PRACTICE PROGRAM OR PRODUCT

The Fix Me Loan Program ("Loan Program") is a low-interest rehabilitation loan program funded by the state and specifically targeted to low-income homeowners. The mission of the Loan Program is to make loans to low-income households for home improvements and, thus, help improve the existing housing stock throughout Maine.

Homeowners may borrow as little as \$500 or as much as \$15,000 to make necessary repairs to their homes. Terms of the loans are for up to 15 years to enable low-income borrowers to make affordable monthly payments with interest rates as low as 2 percent.

The Loan Program is administered separately by 11 Community Action Program ("CAP") agencies, including KV Community Action, under contract with the Maine State Housing Authority. Although the CAP agencies that administer the Loan Program may have different methods of marketing and processing the loans, the delivery of the product is basically the same. All loans are originated and closed by the CAP agencies and sold to the Maine State Housing Authority ("Housing Authority").

The Loan Program is a self-sustaining, fee-based operation. The administrative costs of the Loan Program are funded by two primary sources: loan origination fees and project management fees. The loan origination fee is either \$300 or \$500 and the project management fee is a percentage of the loan amount, ranging from 0 percent to 8 percent, depending upon the complexity of the rehabilitation to be financed. All fees are paid by the borrowers and are usually included in the loan amount. The fees are properly disclosed in the Truth In Lending Statement, which is prepared by the CAP agency. The Housing Authority, which serves as a secondary purchaser of all the Loan Project loans, periodically adjusts the origination and project management fee structure.

The Housing Authority has established two below-market interest rates for program borrowers. Currently, the rate on the rehabilitation loans is either 2 or 4 percent. In order to be eligible for the 2 percent rate, the rehabilitation project must, at completion, meet the "Housing Quality Standards" established by the U. S. Department of Housing and Urban Development ("HUD").

These standards are set forth in 24 C.F.R. § 982.401 (1997). If the finished project does not meet HUD's Housing Quality Standards,

the borrower will receive an interest rate of 4 percent.



KVCAP Fix Me funds were used to expand this home by adding an additional unit and frost wall. The total cost of the project, located in Kennebec County, ME was \$15,000.

EXPERIENCES AND OBSTACLES

KV Community Action handles all loan closings in-house, thereby reducing expenses. Most types of home repairs, including those to heating systems, septic tanks, wells, roofs and interior renovations, can be done under this loan program. Throughout the rehabilitation, the project manager works closely with the borrower to address any issues or concerns. All payments for the materials and the services of the contractors are made from an escrow account at KV Community Action, which is established for each Loan Program borrower with funds received from the Housing Authority and maintained at Kennebec Federal Savings Bank. KV Community Action pays the contractor from the escrow account as each phase of the project is completed. When the rehabilitation project is completed and the funds have been disbursed, arrangements for loan servicing are contracted through the Housing Authority.

One challenge for KV Community Action in its efforts to assist low-income homeowners in upgrading their homes to acceptable health and safety standards has been the successful promotion of the program. This is due to the size and rural nature of the community being served by KV Community Action, which covers nearly 500 square miles. In some cases, remote towns are located as much as 100 miles from the KV Community Action office. KV Community Action has addressed this problem through community outreach efforts and newspaper and radio advertisements. The Housing Authority also remains active and supports KV Community Action by assisting with the marketing of the program. Their combined efforts have helped ensure community awareness of the program.

CURRENT STATUS

The Loan Program is in its third year of operation. During this period, KV Community Action has facilitated nearly 400 loans in the Kennebec and Somerset areas. The Loan Program has provided \$3.8 million in rehabilitation financing to date, with all of the loans going to households having incomes less than 80 percent of the state's median income. Statewide the program has a default

rate of 8 percent. KV Community Action management attributes the success of this program to the efforts made to make a loan truly affordable for low-income borrowers. The low payments enable these homeowners to rehabilitate their homes and repay their debts on schedule.

PARTNERSHIPS

KV Community Action's Housing Services Department works in partnership with the Housing Authority, Kennebec Federal Savings Bank, Consumer Credit Counseling Services, area municipalities, local realtors, area

contractors, and residents in the development of the affordable housing activities within each town or locale.

ADDITIONAL INFORMATION CONTACTS

Kennebec Valley, C.A.P. Agency

Rehabilitation Lending

101 Water Street

Waterville, ME 04903

Contact: Ms. Nancy Findlan, Housing
Director

Phone: (207) 873-2122

Fax: (207) 873-0158

U.S. Bureau of the Census

Department of Commerce

The Herbert C. Hoover Building

15th and Constitution Ave., N.W.

Washington, D.C. 20230

Phone: (202) 482-2000

Fax: (202) 482-5270

Internet Homepage: <http://www.census.gov>

ADDITIONAL RESOURCES

Aaron Shapiro, Program Manager

Community Development Block Grant

Program

Office of Community Development - State of Maine

Phone: (207) 287-8485

Fax: (207) 287-8070

Center for Business and Economic Research

School of Business

University of Southern Maine

118 Bedford Street

Portland, ME 04104-9300.

Phone: (207) 774-9891; (207) 780-4187

Fax: (207) 780-4046

Internet Homepage:

<http://www.usm.maine.edu/~cber/>

Energy and Housing Services

Maine State Housing Authority

353 Water Street

Augusta, ME 04330-4633

Contact: Mr. Peter Wintle, Director